

Message Text

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ACTION ARA-14

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SUBJECT: ECONOMIC ALERT REPORT - HONDURAS

REF: STATE 180067

THE EMBASSY SUBMITS THE FOLLOWING REPORT PREPARED IN ACCORDANCE
WITH THE OUTLINE PROVIDED IN THE DEPARTMENT'S REQUEST (REFTEL).

1. MAJOR ECONOMIC PROBLEMS. A PRELIMINARY LOOK AT THE PARAMETERS
WHICH LIMIT THE ECONOMY WILL HELP TO CONVEY AN UNDERSTANDING OF
HONDURAS' HISTORICALLY WEAK ECONOMIC PERFORMANCE AND PROBLEMS.
ALTHOUGH SIGNIFICANT FOREST RESOURCES EXIST, THE KNOWN RESOURCE
BASE AND SUITABLE AGRICULTURAL LAND ARE LIMITED,
PARTICULARLY BY TRADITIONAL APPROACHES WHICH ARE CHANGING SLOWLY.
THE COUNTRY IS FRAGMENTED BY RUGGED TOPOGRAPHY WHICH ALSO SEPA-
RATES PRODUCING AREAS FROM INTERNAL MARKETS. PRODUCTIVE AREAS
ARE FREQUENTLY ISOLATED AND THE MAIN COMMERCIAL AGRICULTURE HAS BEEN
PHYSICALLY ORIENTED TO TRADING WITH EXTERNAL
MARKETS IN PRODUCTS HAVING VARIABLE TERMS OF TRADE.
RECURRING ADVERSE WEATHER PERIODICALLY AFFECTS ECONOMIC ACTIVITY.
THE CONSEQUENT SLOW, ERRATIC GROWTH, ALLIED WITH RAPID POPULATION
GROWTH HAS YIELDED A NEAR-STATIC LEVEL OF REAL PER CAPITA INCOME.
THE SERIOUSNESS OF HONDURAS' HISTORICAL ECONOMIC PROBLEMS HAS
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COMPLICATED PAST ATTEMPTS AT DEVELOPMENT BY POLITICAL LEADERSHIP.
THE PRESENT MILITARY ADMINISTRATION HAS SINCE 1972 MADE SOME HARD
DECISIONS REQUIRED TO PLACE THE ECONOMY ON A PATH OF STEADY
GROWTH. MAJOR PROBLEMS WHICH EMERGE ARE AS FOLLOWS.
A. POLITICO-ECONOMIC TENSIONS EXIST DUE TO LOW AND POORLY DIS-
TRIBUTED INCOME AND THE INABILITY OF THE GOVERNMENT TO PROVIDE
ADQUATE PUBLIC SERVICES. OCCASIONAL STRIKES AND LAND INVASIONS

REFLECT THESE TENSIONS. PAST CIVILIAN GOVERNMENTS GENERALLY LACKED ENDURING SUPPORT REQUIRED TO MAKE HARD DECISIONS NEEDED FOR SUSTAINED DEVELOPMENT. MILITARY LEADERSHIP WHICH HAS ASSURED STABILITY AND HAS INITIATED AMBITIOUS DEVELOPMENT HAS AGREED TO A RETURN TO CIVILIAN RULE BY 1979. AS THE PROMISED POLITICAL CHANGE-OVER OCCURS, THE QUESTION ARISES WHETHER THE NEW, CIVIL LEADERSHIP WILL BE ABLE TO HOLD THE ECONOMY ON THE GROWTH TRACK AND ATTEND TO BASIC NEEDS OF THE POOR MAJORITY.

B. LOW LITERACY, INADEQUATE HEALTH AND A HIGH POPULATION GROWTH RATE (3.5 PERCENT) AND OTHER INDICATORS OF PUBLIC WELFARE RANK HONDURAS WITH HAITI AND BOLIVIA AS THE LEAST ADVANCED IN THE REGION.

C. LIMITED INFRASTRUCTURE AND, DUE TO TOPOGRAPHY, ITS HIGH COST OF CONSTRUCTION WILL REQUIRE HEAVY INVESTMENT IN ROADS AND OTHER FACILITIES WHICH BY NATURE ARE SLOW TO GENERATE REVENUE. THE NECESSARY HEAVY DEBT BUILD-UP COULD AFTER 1980 BE DIFFICULT TO SERVICE UNLESS MORE HIGHLY PRODUCTIVE INVESTMENTS ALSO OCCUR.

D. RECURRING DISASTROUS WEATHER IN KEY AGRICULTURAL AREAS PERIODICALLY STALLS GROWTH AND DAMAGES EXISTING INFRASTRUCTURE.

E. PRESSURE FROM ARTICULATE CAMPESINO GROUPS FOR MORE RAPID LAND REFORM AND CONCERN BY LANDOWNERS OVER GOVERNMENT LAND REFORM PROGRAMS HAS PUT UNDERUTILIZED LANDS UNDER PRODUCTION BUT RAISED UNCERTAINTY OVER LAND TENURE AND THE NET CONSEQUENT EFFECTS ON AGRICULTURAL PRODUCTION ARE NOT YET CLEAR.

F. THE NOTION PREVAILING IN THE MID-1970S THAT ECONOMIC ILLS LIMITED OFFICIAL USE

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WERE DUE, IN PART, TO THE ROLE OF RESIDENT FOREIGN COMPANIES, LED TO GOVERNMENT ACTIONS AGAINST UNITED BRANDS, STANDARD FRUIT, ROSARIO MINING COMPANY, AND THE TEXACO REFINERY. THERE IS A POTENTIAL FOR FURTHER SUCH ACTIONS.

G. HEAVY DEPENDENCE ON TRADE IN COFFEE, BANANAS AND OTHER COMMODITIES, THE TERMS OF TRADE OF WHICH FLUCTUATE, COMBINED WITH LARGE TRADE GAPS WEAKENS HONDURAS' BORROWING CAPACITY.

H. INCREASINGLY IMPORTANT EXPORTS OF BEEF AND SUGAR HAVE BEEN SUBJECT TO U.S. QUOTAS.

2. OUTLOOK. A CONVERGENCE OF FAVORABLE TRENDS IN MOST ECONOMIC FACTORS DURING THE PAST YEAR HAS PROMPTED A RECOVERY WHICH CONTRASTS SHARPLY WITH THE GENERAL HISTORICAL SITUATION DESCRIBED ABOVE. KEY INDICATORS SIGNAL REAL GROWTH IN 1977 AT ABOUT 8 PERCENT, COMPARED WITH 6.5 PERCENT IN 1976. THIS FORECAST IS BASED ON ADVANCES IN BANANA, COFFEE, COTTON AND SUGAR PRODUCTION, DESPITE UNCERTAIN BASIC GRAINS OUTPUT. STRONG DOMESTIC AND FOREIGN DEMAND FOR LOCAL MANUFACTURES SHOULD SPUR INDUSTRY. CONSTRUCTION IS ACCELERATING WITH GROWING PUBLIC AND PRIVATE OUTLAYS. CURRENT ACCOUNT IMPROVEMENT IS PROJECTED ON BASIS OF SHARPLY INCREASED RECEIPTS AS OF APRIL 1977 FROM COFFEE, BANANAS, LUMBER, BEEF AND SEAFOOD. IMPORTS ARE UP, BUT TO A

LESSER DEGREE THAN EXPORTS, PROMISING A MODEST REDUCTION IN THE TRADE GAP. OFFICIAL AND PRIVATE CAPITAL AND TRANSFER RECEIPTS HAVE MORE THAN COVERED CURRENT ACCOUNT DEFICITS AND PERMITTED AUGMENTATION OF RESERVES TO \$180 MILLION AS OF APRIL 30 (ABOUT 3 MONTHS IMPORTS). THE GOH FOR THE FIRST TIME IN SEVERAL YEARS IS ENJOYING ADEQUATE DOMESTIC REVENUE RECEIPTS AS WELL AS FOREIGN CAPITAL FLOWS REQUIRED FOR ITS STEPPED-UP DEVELOPMENT. THE RISK REMAINS THAT TERMS OF TRADE MAY WORSEN AND NATURAL DISASTER COULD RECUR. GOH ALSO MUST AVOID COMPLACENCY WHICH PRESENT ILLUSIONS OF PROGRESS COULD CAUSE, BECAUSE HARD DECISIONS STILL ARE NEEDED TO CAPTURE AND CHANNEL GAINS TO PRODUCTIVE INVESTMENT. BARRING A REVERSAL OF PRESENT TRENDS, NO ELEMENTS OF THE OUTLOOK APPEAR TO REQUIRE CONSIDERATION OF U.S. POLICY RESPONSES OR ACTIONS.

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3. CRITICAL POINTS. AMONG EXTERNAL FACTORS WHICH COULD REVERSE THE ECONOMIC OUTLOOK ARE, AS STATED ABOVE, ADVERSE WEATHER (ON THE SCALE OF 1974 HURRICANE FIFI) AND A SERIOUS DETERIORATION OF TERMS OF TRADE. NEITHER EVENT IS FORESEEABLE IN THE NEXT 12 MONTHS. A REDUCTION IN U.S. MEAT IMPORT QUOTAS OR THE IMPOSITION OF A SUGAR QUOTA COULD IMPACT ON BILATERAL RELATIONS, BUT WOULD NOT, IN THE ABSENCE OF OTHER ADVERSE DEVELOPMENTS, SERIOUSLY AFFECT THE WHOLE ECONOMY. CONTINUED ECONOMIC GROWTH AND STABILITY ALSO DEPEND HEAVILY ON CAPITAL INFLOWS AND GOH REVENUE

GROWTH. SHOULD EXTERNAL FACTORS REDUCE EITHER OF THESE, THE GOH
MIGHT BE FORCED TO SCALE DOWN ITS DEVELOPMENT PLAN. IF CURTAIL-
MENT OF LENDING OR REVENUE IS SEVERE, U.S. COMPANIES MIGHT AGAIN
BE TARGETED FOR NEW EAXES OR OTHER ACTIONS (SEE 1-F, ABOVE).
HOWEVER, THE PROSPECTS FOR CONTINUED DEVELOPMENT LENDING APPEAR
FAVORABLE.
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